Weekly Economic Review

Investment intentions wane in 2016

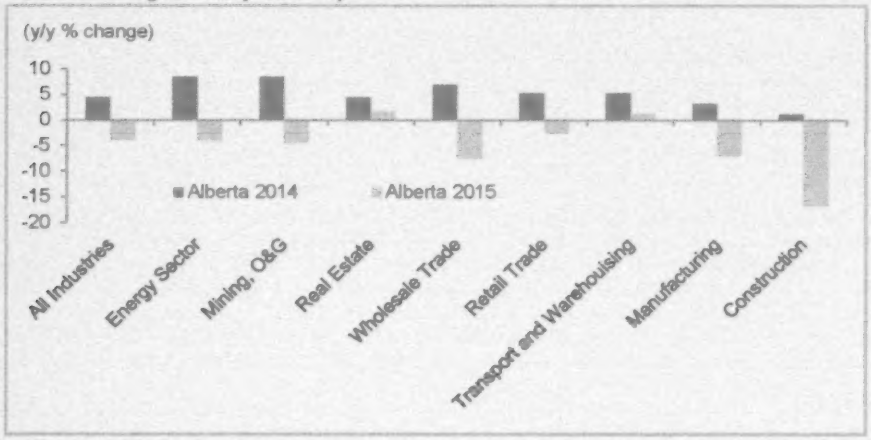
Public-Private Investment

Alberta investment expected to decline this year

According to a Statistics Canada investment survey, Alberta's total non-residential capital expenditures are expected to decline 12% in 2016 to $66 billion, after falling 23% in 2015 to the lowest level since 2010. Total private investment is expected to decline 16% to $55 billion in 2016. Mining, oil and gas investment is anticipated to fall by 28%, lowering its share of provincial non-residential capital expenditures to 43%, the lowest share since 2006. Machinery and equipment investment (-19%) and investment in non-residential construction projects (-10%) are also expected to fall. In contrast, Alberta's public sector investment is anticipated to grow by 21% in 2016, reaching $11 billion.

Chart 1: Significant slowdown for most industries in 2015

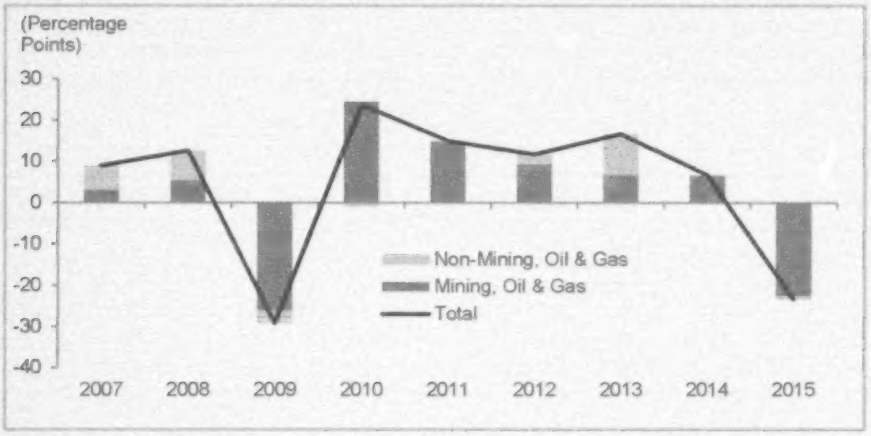
Annual GDP growth by industry



Source: Statistics Canada

Chart 2: Mining, oil and gas sector weighs down investment

Contributions to y/y percent change in non-residential capital expenditures



Source: Statistics Canada

Real GDP by Industry

Economy contracts in 2015

After five years of strong growth, Alberta's real gross domestic product (GDP) by industry shrank 4.0% in 2015 (Chart 1), the lowest growth rate across the provinces and well below the national average (+0.9%). The last time Alberta's GDP contracted was in 2009 during the global financial crisis. Real GDP was weighed down by the energy sector (-4.1% y/y), as support activities for mining, oil and gas extraction fell 38.2%, while construction of oil and gas engineering structures fell 33.7%. The economic slowdown was broad-based across industries, placing Alberta among the bottom three provinces in 14 out of 20 major industry categories. The more adversely affected non-energy sectors included real estate and rental and leasing (-17%), wholesale trade (-7.6%), manufacturing (-7.0%) and retail trade (2.5%).

Non-Res Building Price Index

Non-residential prices deflate

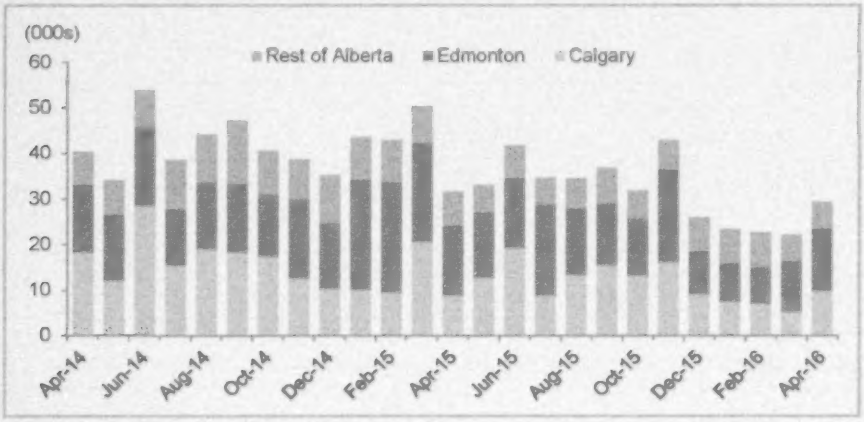
Non-residential construction costs in Alberta were down 0.7% quarter-over-quarter (q/q) in the first quarter of 2016, the third straight decline. Since late-2014, the index has declined by 2.1%. Falling prices were observed in all major sectors, including commercial, industrial, institutional and apartments. The only exception was industrial costs in Calgary, which ticked up 0.2% q/q.

Housing Starts

Starts pickup after falling to five-year low

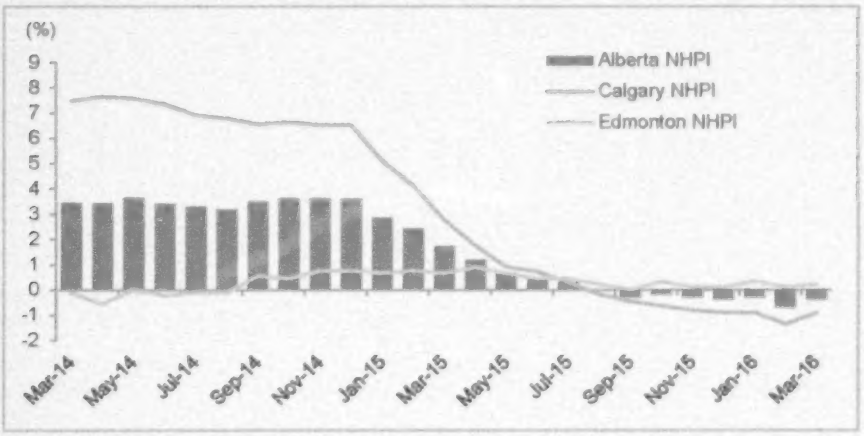
Alberta's housing starts rebounded in April, rising by over 7,000 units to 29,408 housing starts (annualized), a welcome development after starts fell to a near five year low in March (Chart 3). The province's struggling housing market got a boost from multi family dwellings, with starts up nearly 8% year-over-year after several months of marked weakness. Single family housing starts were unchanged. Starts were up in both Edmonton and Calgary, but the level of activity is still relatively weak in both cities. For Edmonton, starts remain down 11% y/y and about 44% below the most recent peak in February 2015. For Calgary, housing starts were up 11% year-over-year, but that mostly reflects the fact that Calgary's housing starts activity had already dwindled substantially in early 2015; starts in April were 66% below the peak reached in June 2014.

Chart 3: First uptick in housing starts after four months
Alberta housing starts (annualized)



Source: Canada Mortgage and Housing Corporation

Chart 4: Alberta house prices getting weaker
Year-over-year change in Alberta NHPI



Source: Statistics Canada

New Housing Price Index

Housing prices stagnate

Amid Alberta's housing market slowdown, the New Housing Price Index (NHPI) was unable to muster any upward price pressure, unchanged in March and receding on a year-over-year basis for a seventh straight month - down 0.4% y/y (Chart 4). The weakness was mostly attributable to Calgary's housing market, where prices were down 0.9% y/y. Edmonton's NHPI was still positive at 0.2% y/y. Across Alberta, the NHPI was pulled down by a 0.6% y/y decline in non-land prices. Land prices were up a mere 0.2% y/y in March, the weakest appreciation since November 2010.

Oil and Natural Gas Supply

Energy production declines further

Alberta produced 3.0 million barrels of oil per day in February, the lowest level in four months and down 1.4% y/y. Conventional oil production has waned markedly in response to lower prices. Production of light, medium and heavy conventional oil fell by 17% y/y in February. Conversely, oil sands production has continued to grow. Bitumen production increased 6.7% y/y while synthetic crude (upgraded bitumen) production was down 3.2% y/y. Low prices and the effect of seasonal demand fluctuations weighed on the production of natural gas, which declined 2.0% y/y. Despite dwindling production volumes, Alberta still accounted for 69% of Canada's natural gas production and 80% of oil production volumes.

Contact

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.